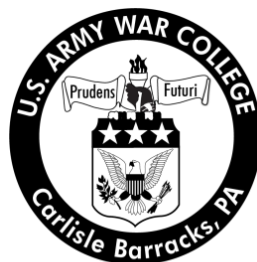


Microfinance for Post-Conflict Peacebuilding

by

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United States Army



United States Army War College
Class of 2012

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MICROFINANCE FOR POST-CONFLICT PEACEBUILDING

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This research focuses on the delivery of microfinance (MFI) and its applications for peacebuilding. Areas of study include: an orientation of MFI within post conflict environments and peacebuilding, case histories of peacebuilding oriented MFI, keys to contextual understanding and analysis, the means of leveraging MFI for peacebuilding, and utilizing MFI within Stability Operations. MFI has proven itself as an effective tool for raising the poorest of societies to sustainable economic levels. Economic despair is a central component affecting stability in post-conflict environments. This despair increases the likelihood of recurring conflict. . MFI's established processes of collective lending groups provides the common space where those recovering from conflict can seek reconciliation and conflict resolution while focusing on a common mission of economic development. When used as one component of a peacebuilding strategy, microfinance can be an effective tool to increase the likelihood of success within stability operations.

MICROFINANCE FOR POST-CONFLICT PEACEBUILDING

Post-conflict environments are breeding grounds for instability. Of the 39 different conflicts that became active from 2000 to 2010, 31 were conflict recurrences.¹ Of the 20 poorest countries in the world, 15 had major conflict since the early 1980s. Additionally every country in Africa has been directly or indirectly affected by conflict. Thirty countries had more than 10 percent of their population displaced and in 10 countries more than 40 percent. In these conflicts, more than 90 percent of the casualties were civilians.² The ravages of war cause ethnic, religious, and cultural strife. Conflict increases birth rates, malnutrition, and communicable diseases. Significant losses in human resources exist as a result of casualties and injuries. Essential human capital and skilled labor move to other countries. Manufacturing infrastructure and financial systems are severely damaged.³

While war torn regions struggle to reestablish stability and security, they must absorb refugees, internally displaced persons (IDP), and demobilized soldiers. Without successful assimilation of these groups, instability remains. Additionally, decimated economies must be restarted to ensure productivity and sustainable livelihoods. Effective peacebuilding measures are essential in order to facilitate reconciliation between disparate people groups and to decrease the likelihood of recurring violent conflict.

A 2000 report, produced by a panel of the United Nations Peace Operations on Peacekeeping Reform, defined peacebuilding as “activities undertaken on the far side of conflict to reassemble the foundations of peace and provide tools for building on those foundations something that is more than just the absence of war.”⁴ Peacebuilding seeks

to mitigate the roots and causes of conflict so that actors are less likely to return to violent means. Economic despair is a central component of recurring conflict.

This research explores microfinance's (MFI) effectiveness as a tool for peacebuilding. This study covers the breadth of MFI and its applications for peacebuilding. The topics include: an orientation of MFI in post conflict environments and peacebuilding, case histories of peacebuilding oriented MFI, keys to contextual understanding and analysis, a discussion of the means of leveraging MFI for peacebuilding, and how to utilize MFI within Stability Operations.

Microfinance Institutions are essentially banks for the poor which provide small amounts of credit for microenterprises. From the early 1970s onward, microfinance has proven itself as a powerful tool to alleviate poverty, so much so that the UN declared 2005 as the "International Year of Microcredit."⁵ Furthermore, in 2006, Muhammad Yunis and his Grameen Bank received the Noble Peace Prize for their work in eradicating global poverty through micro lending. Since 1976, Grameen Bank alone has served 3.12 million borrowers and disbursed \$4.18 billion in loans.⁶ In the last decade, microfinance has proven its effectiveness as a tool for fostering economic development in regions recovering from conflict. Today MFI exist in over 100 countries. As of 2006, an estimated one hundred million people had received MFI services in some form.⁷

While much research has focused on how conflict impacts microfinance, little writing addresses how microfinance impacts conflict.⁸ This research seeks to bridge this gap by exploring the challenges and opportunities of microfinance in post-conflict environments. Some see MFI during and after conflict as a proverbial 'Trojan Horse' for peacebuilding.⁹ It is a tool to jump start economies and provide those most in need with

small amounts of capital in order to provide for their livelihood. MFI is a resource which allows those most severely affected such as returnees, refugees, internally displaced people, landmine survivors, war widows, and rape victims to become self-employed.

The model of MFI provides a common space whereby those affected can become reintegrated into the greater societal context. Economic opportunities provide people with a stake in peacemaking, encouraging them to move from destructive patterns and self interest. One researcher stated:

Studies show that microfinance encourages reconciliation and conflict resolution by involving cross-ethnic cooperation; for example, producers and consumers interact across ethnic borders...microfinance efforts smooth the transition to a normal life after conflict by developing social capital through solidarity mechanisms. In addition, microfinance can encourage the reintegration of refugees, returnees and demobilized soldiers, by facilitating the development of economic activities, collaboration with local populations and fulfillment of entrepreneurial spirit. Indeed, when people need to earn a living to survive, conflict becomes secondary.¹⁰

MFI which includes peacebuilding, conflict transformation, and reconciliation in its institutional values and sees these as a part of their mission objectives has great potential to shape regions into more stable environments. While not a cure all, MFI can be an effective tool in the overall objectives established within military operations and stability operations.

Numerous studies exist in reference to post-conflict MFI in Bosnia-Herzegovina (BiH). The war in BiH, along with its ethnic strife, atrocities, displaced persons, and decimation to its economy, made MFI in this context a relevant case study on the use of MFI for intentional and indirect peacebuilding. While all providers of MFI services saw their primary goal as economic development, many had as secondary goals efforts which facilitated peacebuilding, conflict transformation, and reconciliation.

In Bosnia-Herzegovina, one MFI utilized a traditional concept known as the *zadruga*, or collective group. Clients formed *zadrugas* of 20 to 30 members to enact village banking practices and pool support for funds.¹¹ Authors Anand and Badawi reported an interview with a credit officer in Sarajevo who stated that “although inter-religious interaction could not be forced or engineered after the war, Muslims and Christians came together as natural consequences of economic life. Often that interaction happened, literally across the counter at a microfinance institution.”¹²

The possibility of improving an ethnic group’s circumstances can prove a motivator for cooperation which provides common space. This common space provides opportunity for injuring and injured parties to facilitate the process of peacebuilding. Karen Doyle stated one such example. She described Muslim borrowers living in front line communities in Bosnia. When they realized that cooperation would improve their enterprises, they would show willingness to cooperate with Serbs across the inter-entity boundary line.¹³

Natasha Gononja, an expert in post-conflict MFI, stated that one Muslim client shared that she was the first Christian her Muslim client had seen since the person who killed her brother. Clients would tell Gononja that she was the first Christian they could trust.¹⁴ When MFI clients managed their debt in lending groups, members had the opportunity to come together. This gathering provided occasions for members to provide support, companionship, and conversation. The groups encourage repayment but also reconciliation. Her research led her to conclude, “In societies devastated by distrust and destruction, MFI can point the way back for civil society.”¹⁵

In a similar circumstance, Nagarajan identified the MFI, Women for Women International, which operated outside of Sarajevo. It attempted utilizing solidarity groups comprised of returnees and survivors. Trust was lacking and much time and effort was required to foster trust through conversations and meetings when loan repayments were collected.¹⁶

In Karen Doyle's interviews with MFI practitioners, she identified that no practitioners saw the wisdom in putting secondary goals above economic ones. However, they engaged in business with conflict sensitive approaches. In one example, CARE/Bosnia was considering locating MFI sub offices in areas where IDPs and refugees were trying to relocate to their original areas. CARE also was sensitive to the ethnic makeup of their credit staff.¹⁷

MFI and micro-industry has also proven itself an effective tool for peacebuilding in Western Africa. During the Rwandan genocide in 1994, Hutu groups conducted mass killings of Tutsis. Some estimate that up to 20% of the country's population was exterminated. Additionally, adjoining Burundi estimated the deaths of 25,000 Tutsis at the hands of Hutus.

World Relief, an NGO that provides MFI services in the context of a community bank model describes the process by which group dynamics are improved between Hutus and Tutsis through MFI:

Hutus and Tutsis attend the first meeting of the community bank and sit absolutely divided. Although they probably know one another from the market, they do not speak. A gradual, nonthreatening process takes place as people learn more about the management of the community bank. Then the real test for people occurs when they need to sign as collateral for all other members in the bank. At this point they may question how comfortable they feel guaranteeing a Hutu's or Tutsi's loan, but everyone signs. After the first cycle and within the first year, the tribal distinctions fade. The women of different ethnic backgrounds sit

side by side. They want each other to thrive because the success of each individual means the success of the community bank.¹⁸

Hope International is another NGO that provides MFI services in Rwanda. They have two distinct initiatives in the country. The first is a traditional MFI named URWEGO Opportunity Bank. URWEGO is reaching 40,000 borrowers and savers. URWEGO operated through a community-banking model where community banks are comprised of approximately 30 people. In addition to this model, Hope Rwanda is working with local Anglican churches. Through this, they provide loans to members of their community. These savings groups operate in rural areas where many are affected by severe poverty. The goal of conducting MFI in and through the local churches is that they would not only assist in alleviating poverty but also utilize their services to bring about reconciliation.¹⁹

International Alert, a United Kingdom based MFI, utilizes their program's lending groups to provide common space for those most affected by the genocide to include survivors, ex-prisoners, ex-combatants, and youth. This interaction starts the process of building trust and confidence among them. In this common space, participants, through the assistance of the MFI, can identify common ground for cooperation and coexistence. This allows them to explore ways in which they can resolve conflicts peacefully.²⁰

Although no longer a microenterprise, the coffee industry has become an effective tool for reconciliation in Rwanda. The article, "Why Jonathan Golden helps farmers in Rwanda," shares an amazing reconciliation story:

John and Clementine grew up next to each other; he was Hutu, she was Tutsi. During the 1994 genocide, he murdered her father and all of her siblings, and even went after her. After the genocide, he ended up in prison, where he heard

the gospel and accepted the Lord. John later returned to the village and met Clementine at the coffee washing station, where he asked for her forgiveness. When they told me their story, they said that they had experienced reconciliation through coffee. They now literally farm side by side. It's grace in action.²¹

Burundi, the country sharing its northern border with Rwanda also has a history of extreme violence between the Tutsi and Hutu tribes. In this context, an MFI by the name of Turame has utilized MFI with conflict resolution training within its community bank lending methodology. Turame was established by World Relief in 2004. In 2006 it was recognized as the top MFI in the country. By 2011 they projected growth to about 28,000 clients.²²

Once lending groups are formed, Turame initiates bank training. This training takes place over a month. Training is led by loan officers. The training is composed of four modules: credit and savings, group and association formation, peace and reconciliation, and elections and group administration.

Turame also conducts conflict resolution training for its staff. In interviews with one loan officer, he stated, “clients benefit from the training... when a problem happens...they are able to resolve it.” Interviews with community groups also revealed the benefits of the training. One client noted that “before we didn’t know the importance of working in a group.” Another client noted, “We learned to love each other, learned about reconciliation and also how to think and put yourself in someone else’s shoes.”²³ The director of the program notes that training helps individuals understand how the trauma of past acts is manifested in the day to day. This awareness helps individuals empathize and internalize the concepts of reconciliation.²⁴

Another example of the effective use of group lending methodologies is ongoing in Afghanistan, where the MFI Child Fund Afghanistan utilizes a client targeting

opportunity. The MFI engages both ex-combatants and local farmers. They are grouped into client pools, each responsible for joint repayment liability. Over time, group members lose their separate identities and work together in their shared focus.²⁵

Within the ethnic conflict in Indonesia through the last ten years, microfinance created opportunities for interaction between Christians and Muslims. By receiving access to MFI, local traders, located between border communities utilized their interdependence. One example illustrates the case of two fishing groups belonging to the same community. These groups had a history of conflict but started working together. The market forces through MFI proved to be stronger than internal divisions.²⁶

In the contexts of Uganda and Vietnam, researcher Laura Meissner reported of the effectiveness of MFI to assist in the process of refugees reentering communities.

Regarding Uganda, she wrote:

Several microfinance programs have had success at smoothing refugees' reentry into Communities. In Uganda, FINCA's village banking program incorporated refugees. This both improved their economic situation and helped with refugee-local relations; "contrary to some predictions, the refugees were among the most reliable and most appreciative clients."²⁷

Meissner further wrote of research conducted in Vietnam which states that:

An NGO consortium implementing a modified village-banking scheme in Vietnam through the parasital Vietnamese Women's Union had a similar experience. The Consortium's original plan had been to only offer loans to refugees, enticing them to return to their communities (although the refugees were often economically better off than locals). However, the Vietnamese government insisted that half of every lending group be comprised of locals who had never left during the conflict. The mixed-group lending helped refugees feel "welcomed back into society."²⁸

Without question, the primary purpose of MFI is economic. As a result of MFI's flexibility, mobility, and structure, it has the ability to provide financial services to those unlikely to qualify for conventional loans. In addition, its model of services allows it to

access areas of need much earlier than conventional services. This access allows MFI to assist those in greatest need within conflict and post-conflict areas.

Before any MFI considers secondary goals, the institution must be solvent and managed effectively as a financial services organization. If an MFI cannot conduct the business of providing small amounts of capital, managing its accounts, and collecting repayments, it will not be able to sustain itself in the often austere environments in which it seeks to operate.

As mentioned previously, many argue that the secondary benefits and outcomes of the provision of MFI be left to themselves. When those affected by conflict are able to provide for their livelihood, the likelihood of relapses in conflict decrease dramatically. Because of its model of accountability among fellow borrowers who accept responsibility for each other's loans, the common space of the lending groups provides opportunities for those with a history of conflict to come together focused on the common purpose of recovery. This interaction provides opportunities for barriers to come down and reconciliation to take place alongside the processes of MFI lending, collective management, and loan repayment.

Proponents of a singular primary focus argue that secondary goals diminish the effectiveness of the organization. Other goals cause MFIs to commit resources and personnel to areas that require additional cost, time, and training thereby hindering the effectiveness of financial services delivery. Those who argue this position essentially allow peacebuilding to take care of itself or seek other organizations whose mission and purposes are peacebuilding centric to work alongside the MFI. Well intentioned multipurpose MFIs that fail as a result of their additional goals fail also in their primary

goal. With the difficulty of implementing MFI in post-conflict environments, MFIs may be over-tasked and under resourced without adding new layers and resource intensive activities on their plate. Additional requirements may be seen as “mission creep.”²⁹

The secondary goals of MFI fall into two broad categories: sociopolitical or cultural, and personal or psychological. In the realm of social intermediation, social capital is rebuilt. Social services can include: conflict resolution, health, nutrition, education, and literacy training.³⁰

Speaking of primary and secondary goals, Mercy Corps International's Chief Operating Officer discusses the management of secondary goals:

We let the economics drive the political reconciliation although there is an emphasis on incorporating long-term reconciliation goals into the design of a program. In one case, we chose three, contiguous communities to expand our microfinance program. This was once a multi-ethnic, interdependent area and now, as a result of war, are three separate communities each of different ethnic minorities. We plan to start with small, individual loans designed to improve personal income. Some of the microbusinesses will graduate to larger enterprises that, in order to qualify for greater amounts of capital, will have to service the entire area. The communities will need to figure out how to support one dairy, one butchery, etc. and we hope to coordinate with other lending entities to facilitate this natural community planning. As a separate initiative, our Civil Society team will be available to hold community problem-solving workshops, as we have done in other areas of the country.³¹

Ultimately, the policy goals of the MFI shape its approach to secondary goals. Factors for consideration are the donor expectations and post-conflict context with its varied groups and their unique needs.

The application of microfinance in peacebuilding is also difficult as one must clearly understand the complexity of each individual conflict context. Awareness of societal factors such as ethnic, tribal, and familial dynamics is critical in developing the proper approach. When General Wayne Downing was commander of the U.S. Army Special Operations Command, he developed Special Operations tenets. The first tenet

is “know your operational environment.” Knowing ones operational environment is critical in order to provide peacebuilding oriented MFI in a post-conflict environment.

One must ask a myriad of questions to develop the appropriate contextual understanding of the zone of conflict and how the intended assistance could potentially affect the conflict, both positive and negative. One assessment and analysis tool called the “Do No Harm Handbook: The Framework for Analyzing the Effect of Assistance on Conflict” developed by the Local Capacities for Peace, provides a framework for analyzing the region of conflict.³² The Do No Harm Handbook provides a seven step process of conflict analysis. These steps are: 1. Understanding the Context of Conflict; 2. Analyzing dividers and tensions; 3. Analyzing connectors and local capacities for peace; 4. Analyzing the assistance program; 5. Analyzing the Assistance Program’s Impact on Dividers and Connectors; 6. Considering Program Options; 7. Test Programming Options and Reset Project Design.³³

The Army Field Manual, FM 3.07, Stability Operations also provides a step by step process for assessing the conflict zone. These steps include: 1. Establish Context; 2. Understand Core Grievances and Sources of Institutional Resilience; 3. Identify Drivers of Conflict and Mitigating Factors; 4. Describe Windows of Vulnerability and Windows of Opportunity.³⁴ Appendix D of FM 3.07 provides helpful planning resources to assist Department of Defense and other interagency elements to analyze the environment and develop adequate knowledge to leverage the resources of MFI in the zone of conflict.

Those with experience identify numerous conditions that are necessary to create MFI in post-conflict situations. Essential elements are donor funding and the

commitment of those donors to the mission of peacebuilding through MFI. Also required is a certain level of peace and security. MFI is not recommended as the first step in peacebuilding but a component of a multilateral approach. There is also a need of a level of stability within the population as the lending models of MFI require clients to operate in lending groups which allow loan cycle repayments. MFI proponents also list several other environmental conditions to include: a reasonable amount of security, the reemergence of some market activity, a functioning banking system, absence of hyperinflation, and a certain population density, and a favorable policy environment.³⁵

Providers of MFI must also consider who the target audience is. As the conflict is mapped and analyzed, key people and groups emerge as those who play a significant role in the perpetuation of conflict. Targeting these groups will mitigate conflict as they are brought to the MFI table in order to better their individual and collective circumstances. Those groups most likely to be critical include the inhabitants, returnees, refugees, internally displaced, demobilized soldiers, and widows. As these people groups are targeted, one must be sensitive of the history of victim and offender and those suffering from psychological and emotional trauma.

Conflict and post conflict environments suffer greatly from the loss of social capital. Social capital is the traditional social mechanisms that facilitate mutual obligations, contacts, and transactions.³⁶ Cambodia is an example. Countries with histories of violent conflict often display a lack of trust in society and its institutions.³⁷ This tendency reduces potential clients and lengthens the time for an MFI to gain trust, credibility, and prove its effectiveness. The deficit of social capital also increases the length of time required to implement MFI. Lending groups will require more effort to

establish solidarity and the training of the community bank model will be needed to overcome the breakdown of trust and the mending of schisms.

The final major component of awareness in MFI implementation is a clear understanding of the key actors which might contribute to the success or failure of effective MFI. Any conflict environment has actors who benefit from a region's instability. Chaos and destitution is in their best interest and they will resist efforts to improve a region. Actors who have potential to contribute to the effective implementation of MFI need to be leveraged as well. Provision of MFI is a difficult balance of making services available to a wide array of affected people. When there are perceptions of preferential treatment, peacebuilding is hindered. Sensitivity is required regarding the mix of MFI employees. A best case scenario is one in which the makeup of the organization is reflective of the makeup of the potential clients.

Social scientists have coined the term "process mitigation." Process mitigation is defined as, "The way that a practice itself can, independently of its outcome, lead to the transformation of psychological predispositions to reconciliation."³⁸ Through its lending model, MFI utilizes collective processes for guaranteeing loans. This provides the common space for groups to come together. This common space facilitates process mitigation. Institutions are wise who see this potential benefit and work to maximize the gains provided by this unique context.

When groups in conflict are brought together, process mitigation occurs. The underlying theory of process mitigation revolves around the role that group identities play in conflict dynamics. Social-psychological explanations of conflict focus on the formation of "in-group love" and "out-group hate." This dynamic is found in Gordon

Allport's "contact hypothesis."³⁹ These processes allow for the "re-humanization" of enemies.

When groups with a history of violent conflict come together for a common purpose and mission, it can lead to behavioral changes which have the potential to lessen the likelihood of reoccurring conflict. Gradually, mindsets, stereotypes, prejudices, and cultural misunderstandings can be overcome. Psychological barriers to conflict resolution are overcome on two separate levels. In regards to the self, individuals are empowered and rehabilitated. They find purpose and meaning through the capacity to improve their conditions and provide for themselves and their families. Through the group, coexistence and empathy might be generated through making rivals joint stakeholders in economic processes.⁴⁰

Examples of the transformation of group identities can be seen through Laura Meissner's research in Rwanda. Ten years after the genocide in Rwanda, Tutsis and Hutus came together through a village microfinance program coupled with an AIDS prevention program. The villagers stated, "They no longer looked at each other as Hutu or Tutsi."⁴¹

In the context of the Sri Lankan Civil War, microfinance was critical in transforming an atmosphere of violence into progressive development and peaceful cohabitation. The processes contributed to reestablishing social capital to conflict affected communities.⁴² Group identities were transformed. The processes contributed to reestablishing social capital to conflict affected communities.⁴³ The common space of the lending groups became places for sharing experiences, discussing problems, and solving conflicts. These activities generated trust and cooperation between peoples

formerly hostile to each other. The need to entrust mutual community members with each other's money and follow internal banking rules built social capital.⁴⁴

Providers of MFI must be mindful of the dynamics of process mitigation as they access a specific region of conflict. Practitioners in BiH report a willingness on behalf of members of various ethnic groups to engage in joint economic ventures fueled by their repeated contact displaying process mitigation across communities.⁴⁵

Stacy Heen identifies four ways in which contact could occur:

by funding income-generating projects run jointly by members of opposing social groups; by organizing members of opposing social groups into solidarity groups in which they guarantee each others' loans; by increasing client diversity such that borrowers of opposing groups come into contact, however intermittent, through the institution's lending processes; or by funding processes in which members of opposing social groups participate (e.g. soccer games, leader meetings, training workshops).⁴⁶

An awareness of process mitigation allows one to analyze groups in conflict. It then can be used to tailor policies and procedures which facilitate peacebuilding. Process mitigation is further leveraged when MFI's provide services beyond financial services delivery. These processes and capacities include: ongoing conflict analysis, special staff skills and qualifications centering on mediation and conflict resolution skills, and providing or linking to non-financial products and services such a negotiation training or facilitation.⁴⁷

MFIs may also be a means of fostering peacebuilding through the establishment of peace conditionalities in banking policies and practices.⁴⁸ These conditionalities make loans contingent on a potential borrower's agreement to participate in the peacebuilding process. Through the establishment of lending groups, individual members come

together and while working toward loan repayment, they also work towards their mutual commitments to reconciliation and conflict transformation.

Another critical consideration for leveraging MFI for peacebuilding is the model of the lending group utilized. As discussed earlier, the model of MFI utilizes client groups which underwrite each other's loans. The analysis and evaluation of the contextual understanding determines the makeup of these groups. MFIs must also remain flexible to adapt their policies of client groups to their environment. In some contexts, the emotional scars of conflict are so great that a village banking model is unlikely to succeed. One such example in Brcko, Bosnia-Herzegovina, a UNHCR funded NGO attempted to reconcile Serbs and Muslims through a village banking program. Joint fund management and mutual guarantees as a large group were impossible. The lack of trust between groups made this approach impossible. Managers dropped the model in favor of solidarity groups where Serbs and Muslims were allowed to voluntarily form groups more cohesive and compatible.⁴⁹

In another example in BiH, the MFI Delphi reported resistance to a village banking model. When the model was introduced, the villagers explained to the MFI staff that, "Serbs and Moslems...were not prepared to enter into large group guarantees with each other." Instead, Delphi developed a model of five person solidarity groups.⁵⁰

Similarly in Cambodia, the village banking methodology had to be dropped because of lack of demand. As the result of the extreme violence during the Khmer Rouge, trust in civic and commercial institutions was at such a low level, potential clients were unwilling to enter into this type of lending model.⁵¹ MFI practitioners adapted their regulations to allow extended family living in separate households to

belong to the same credit groups.⁵² Ultimately, the key questions driving the composition of groups are those which foster social capital, trust, empowerment, and leadership.

Another outcome of the analysis are decisions regarding the targeting of potential clients. Key determining questions are: what is the effect of conflict on the actual and potential clients; to what extent can MFI help in the integration of returnees, refugees and displaced populations, demobilized soldiers, and widows; should integration be sought through finance; can MFI serve these specialized populations?⁵³

Each of these groups requires variations of the types of banking services most appropriate. Some call for short term verses longer term loans. Others need working capital. In addition, each of these groups has different issues regarding risk assessment.

In some conflict environments, proponents of MFI focus on women as a critical client base as provision of MFI to them has numerous benefits for peacebuilding and conflict transformation. Conflict often causes women to become heads of households which makes them extremely vulnerable. Case studies have shown that women are far less resistant to disaster. Women also are often a less political client group and are therefore safer for loans. Women have better repayments rates and tend to use their loans more responsibly. Most importantly, women have a greater disposition and capacity to operate as peacemakers in war-torn societies.⁵⁴

In other contexts, providers of MFI sought potential clients who were victims of conflict and violence but shared similar characteristics and circumstances. One example is the grouping of survivors of existing communities who remained during the conflict;

these were grouped with returning refugees. In other areas, ex-combatants and demilitarized soldiers were brought into groups with the local population to allow for reintegration into a post-conflict society.

In the provision of lending, MFIs have opportunities to provide services in addition to banking. An MFI might provide services that offer education and training in mediation, conflict resolution, peacemaking, and reconciliation.⁵⁵ These social and political secondary goals enhance the process mitigation. Loan officers and MFI employees might receive training in these skills and be resourced with materials that groups could utilize in peacebuilding.

Within its community banking model, the MFI Turame conducts peacebuilding training in Burundi. In Turame's lending model, individuals self select into groups of 30 to 45 people. Turame conducts training on peacebuilding for loan officers which the loan officers provide to the lending groups. The curriculum is called "Coaching for Peace." The training includes five modules which cover the following: transforming conflict through negotiation, redeeming conflict through forgiveness, helping others through listening, helping others get to their heart in conflict, and coaching others through healing the wounds of conflict.⁵⁶

One organization that has developed curriculum through their "Microfinance with Education Network" is the Chalmers Center for Economic Development.⁵⁷ The Chalmers Center is a research and training organization which combines microeconomic development interventions and social entrepreneurship principles. Their focus is reconciliation through church based microfinance.

Effective utilization of peacebuilding MFI within Stability Operations requires a concerted unity of effort. This unity of effort includes the Department of Defense, the United States Agency for International Development (USAID), Department of State, Non-governmental Organizations (NGO), and International Governmental Organizations (IGO).

Great progress has occurred in the cooperation of many of these agencies within operations in Iraq and Afghanistan. Among these agencies, USAID is the most critical in leveraging MFI within the context of Stability Operations. USAID is an independent agency that provides economic, development and humanitarian assistance around the world in support of the foreign policy goals of the United States.⁵⁸

As an organization, USAID operates missions forward deployed. Deployed staff members and local staff conduct assessments of needs and challenges in their respective environments. With that information, strategic plans called Country Developments Cooperation Strategies (CDCS) are developed.

As the principal U.S. agency tasked to extend assistance to host nations in need, USAID supports U.S. foreign policy objectives by supporting economic growth, agriculture and trade, conflict prevention, and humanitarian assistance. Based upon its development objectives, it then undertakes the process of project design. USAID then transfers resources to IGOs and NGOs. USAID is actively involved in the MFI sector through building sustainable MFI, conducting market research, helping MFIs gain access to private capital, and strengthening operations.⁵⁹ Further discussion follows below on various agencies roles and functions within the context of Provincial Reconstruction Teams (PRT) and Village Stability Operations (VSO).

Since the initiation of combat operations within Iraq and Afghanistan, MFI has established itself and grown incrementally as a key tool for economic development. Through the agency of Microfinance Investment and Support Facility for Afghanistan (MISFA), nearly 400,000 clients are provided small amounts of capital for microenterprises. MISFA was established in June 2003 as a mechanism that provides qualified MFI with grants and loans for lending capital and institutional capacity building. MISFA partners collectively reached 35,000 clients.⁶⁰ As of 2007, fifteen MFI institutions were in place in 24 of Afghanistan's 34 provinces.⁶¹

In Iraq, MFI established itself shortly after the Iraqi invasion in 2003. Since that time, fourteen MFIs are operating in all eighteen provinces. These MFIs have loans over \$453.5 million throughout the country.⁶² USAID and the Iraqi government are in a partnership that spurs continued growth.⁶³ Ongoing MFI within Iraq and Afghanistan provide not only prime opportunities for economic development, they also provide a context for reconciliation and conflict transformation in regions severely impacted by the years of war.

In June 2003, the Coalition Provisional Authority in Iraq, under the administration of Ambassador Paul Bremer, established the Commander's Emergency Response Program (CERP). The CERP program was developed to provide commanders access to resources in order to respond to urgent humanitarian and reconstruction requirements in their areas of responsibility. CERP funds were utilized extensively in both Afghanistan and Iraq as an effective tool to support the commander's mission within stability operations.

The CERP funds are available to provide capital to MFI institutions on the ground in order to foster microenterprises.⁶⁴ As a result of a military force's ability to operate in less secure environments, they have the ability to go to locations before traditional NGOs and IGOs. This accessibility provides commanders the opportunity to have situational awareness about areas where MFI would benefit the overall mission of stabilization. Additionally through PRTs and other units in the commander's area of operations, he is able to determine the ability to leverage MFI as a tool for peacebuilding.

Operating multilaterally with other organizations, the Department of Defense is able to support each organization as it fulfills the mission of stability and security according the stated policy objectives. For example, commanders operate in coordination with USAID, using its resources alongside the CERP funds to support NGOs whose mission is MFI and peacebuilding.

FM 3-07 Stability Operations, published in February 2003, was a milestone document that established as doctrine the synchronization and inclusion of various functions and actions that advance the use of MFI. FM 3-07 also established as doctrine the PRT, a joint interagency, intergovernmental organization especially designed to support stability operations.

Among many of its required tasks and functions outlined in FM 3-07, PRTs have the mission of assisting in economic stabilization and infrastructure development.⁶⁵ PRTs operating in Iraq and Afghanistan have received over \$10 million in CERP funds as well as funds from USAID programs. These funds were provided to fund and finance microcredit projects in each area of responsibility.⁶⁶

As of 2008, the U.S. operated over 30 PRTs between Iraq and Afghanistan. In 2011, in Afghanistan, the U.S. and other NATO partners operated over 50 PRTs.⁶⁷ MFI through the PRTs in Iraq was functioning in all 18 provinces with current loan portfolios of nearly 55,000 outstanding loans totaling over \$115 million.⁶⁸

PRTs are a joint civil-military unit operating under a “board of directors” concept. The PRT in Khost, Afghanistan had representatives from the State Department, USAID, and U.S. Department of Agriculture. Within the PRT, civil and military units coordinate activities which support development.⁶⁹ In this context, MFI can function as a “tip of the spear” economic development tool. All development actors can mutually support each other in the delivery and provision of MFI which facilitates peacebuilding.

Village Stability Operations (VSO) share similar functions with PRTs. They are a construct used within Special Operations. In VSO, operations are broadly characterized into governance, development, and security.⁷⁰ The intent of village stability methodology is employment of U.S. Special Operations Forces (USSOF) teams and partnered units embedded within villages promoting social and economic development among many of its goals.⁷¹

In Afghanistan, the Combined Joint Special Operations Task Force received from USAID a \$3.5 million budget line exclusively in support of VSO.⁷² Additionally, USAID representatives were partnered with the USSOF Teams. The collaboration of these assets allows access to areas of opportunity for USAID that might not otherwise exist. Partnership with USSOF provides a level of security where USAID representatives can get further out in less secure areas and make better assessments of need. This allows a better picture of how MFI would be effective. Furthermore, this increased situational

awareness allows the passing of resources to NGOs and IGOs within the area of operation so that MFI is used most effectively as a stabilization tool.

For peacebuilding MFI to be utilized effectively within stability operations there must be a clear commitment to a team concept. Each agency and department brings unique skills and experiences. When operating with a holistic intergovernmental interagency approach, the success of utilizing MFI as a tool for peacebuilding increases significantly.

Microfinance has proven itself as an effective tool for raising the poorest of societies to sustainable economic levels. Economic despair is a central component affecting stability in post-conflict environments. This despair increases the likelihood of recurring conflict. . MFI's established processes of collective lending groups provides the common space where those recovering from conflict can seek reconciliation and conflict resolution while focusing on a common mission of economic development. When used as one component of a peacebuilding strategy, microfinance can be an effective tool to increase the likelihood of success within Stability Operations.

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